



Umtshezi Municipality
Annual financial statements
for the year ended 30 June 2013

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

General Information

Mayoral committee

Mayor

Councillors

Cllr BD Dlamini
Cllr BA Dlamini
Cllr CJ Nunes
Cllr BS Dladla
Cllr TC Dubazane
Cllr TG Duma
Cllr GR Gericke
Cllr E Lite
Cllr SD Magubane
Cllr EM Majola
Cllr ME Mchunu
Cllr SM Mlambo
Cllr SC Mlele
Cllr B Sulieman
Cllr DM Vahed
Cllr K Vilakazi
Cllr Z Zwane

Grading of local authority

3

Accounting Officer

Ms P.N Njoko

Chief Finance Officer (CFO)

Mrs N Thomas

Registered office

Civic Building
Victoria Road
Estcourt
3310

Business address

Civic Building
Victoria Road
Estcourt
3310

Postal address

P O Box 15
Estcourt
3310

Bankers

First National Bank

Auditors

Auditor-General of South Africa

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Index

Index	Page
Accounting Officer's Responsibilities and Approval	3
Approval of Annual Financial Statements	4
Statement of Financial Position	5
Statement of Changes in Net Assets	7
Statement of Financial Performance	6
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 13
Accounting Policies	14 - 25
Notes to the Annual Financial Statements	26 - 53
Appendixes:	
Appendix A: Schedule of External loans	54
Appendix B: Analysis of Property, Plant and Equipment	55
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	61

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act, No 56 of 2003
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are required to express an independent opinion on the annual financial statements.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the municipality sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is mainly dependent on income from rates and services for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umtshezi Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The annual financial statements set out on pages 4 to 53, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013 and were signed on its behalf by:

Accounting Officer
Ms P.N Njoko

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Approval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 53, in terms of Section 126(1) of the Municipal Finance Management Act, 56 of 2003, and which I have signed on behalf of the municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in the note 28 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of the Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Accounting Officer
Ms P.N Njoko

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Position as at 30 June 2013

	Note(s)	2013 R	2012 Restated R
Assets			
Current Assets			
Inventories	7	1,487,716	549,719
Loans and receivables	8	135,838	184,402
Other receivables from exchange transactions	9	297,481	1,339,845
VAT receivable from exchange transactions	10	13,290,111	11,493,139
Consumer debtors from exchange transactions	11	43,111,582	36,234,895
Investments	12	27,502,994	22,347,042
Cash and cash equivalents	13	13,523,473	13,366,409
		99,349,195	85,515,451
Non-Current Assets			
Property, plant and equipment	4	619,448,175	623,723,649
Intangible assets	5	438,434	185,775
Heritage assets	6	8,244,763	8,244,763
Loans and receivables	8	418,803	722,098
Investments	12	103,037	96,520
		628,653,212	632,972,805
Non-current assets held for sale and assets of disposal groups	14	-	1,228,071
Total Assets		728,002,407	719,716,327
Liabilities			
Current Liabilities			
Finance lease obligation	15	534,065	833,133
Payables from exchange transactions	16	27,133,339	20,415,704
Consumer deposits	17	2,844,579	2,620,285
Retirement benefit obligation	18	981,000	960,000
Unspent conditional grants and receipts	19	18,325,447	16,044,682
Provisions	20	7,248,546	7,537,796
Current portion of long term loan	21	929,782	991,847
		57,996,758	49,403,447
Non-Current Liabilities			
Finance lease obligation	15	1,246,257	1,811,239
Retirement benefit obligation	18	14,141,000	11,641,000
Long term loan	21	8,727,956	10,538,857
		24,115,213	23,991,096
Total Liabilities		82,111,971	73,394,543
Net Assets		645,890,436	646,321,784
Net Assets			
Housing operating account	22	1,095,260	1,095,260
Accumulated surplus		644,795,176	645,226,524
Total Net Assets		645,890,436	646,321,784

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Performance

	Note(s)	2013 R	2012 Restated R
Revenue			
Service charges from exchange transactions	25	163,354,770	147,416,913
Rendering of services from exchange transactions		2,128,637	2,658,265
Rental of facilities and equipment from exchange transactions	24	387,449	435,367
Licences and permits from exchange transactions		4,705,421	4,686,611
Administration and management fees received from exchange transactions		2,200	3,320
Fees earned from exchange transactions		29,780	58,842
Other income from exchange transactions		672,005	868,288
Interest received from exchange transactions		2,261,109	1,729,259
Property rates from non-exchange transactions	24	38,105,895	35,130,822
Property rates - penalties imposed from non-exchange transactions		5,597,986	5,262,311
Government grants & subsidies from non-exchange transactions	26	65,408,235	46,505,370
Fines from non-exchange transactions		46,265	196,025
Total revenue		282,699,752	244,951,393
Expenditure			
Personnel	28	(62,101,321)	(56,390,941)
Remuneration of councillors	29	(4,601,212)	(4,359,576)
Depreciation and amortisation	32	(31,515,003)	(32,107,797)
Impairment loss/ Reversal of impairments	33	(3,166)	(62,457)
Finance costs	34	(813,858)	(953,445)
Debt impairment	30	(6,456,781)	(12,882,000)
Repairs and maintenance		(8,961,015)	(7,955,152)
Bulk purchases	37	(129,226,756)	(113,864,508)
Grants and subsidies paid		(1,165,000)	(1,940,582)
General Expenses	27	(37,564,363)	(25,954,110)
Total expenditure		(282,408,475)	(256,470,568)
Operating surplus (deficit)		291,277	(11,519,175)
Loss on disposal of assets and liabilities		(844,768)	(2,161)
Deficit for the year		(553,491)	(11,521,336)

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Changes in Net Assets

	Housing operating account R	Accumulated surplus R	Total net assets R
Balance at 01 July 2011	1,095,260	655,266,648	656,361,908
Changes in net assets			
Prior period errors	-	(1,136,764)	(1,136,764)
Fair value additions to assets previously written off	-	365,887	365,887
Net income (losses) recognised directly in net assets	-	(770,877)	(770,877)
Surplus / (Deficit) for the year	-	(11,521,336)	(11,521,336)
Total recognised income and expenses for the year	-	(12,292,213)	(12,292,213)
Total changes	-	(12,292,213)	(12,292,213)
Opening balance as previously reported	1,095,260	642,974,435	644,069,695
Adjustments			
Change in accounting policy	-	2,252,089	2,252,089
Balance at 01 July 2012 as restated	1,095,260	645,226,524	646,321,784
Changes in net assets			
Prior period adjustments	-	(19,705)	(19,705)
Fair market value additions	-	141,848	141,848
Net income (losses) recognised directly in net assets	-	122,143	122,143
Surplus / (Deficit) for the year	-	(553,491)	(553,491)
Total recognised income and expenses for the year	-	(431,348)	(431,348)
Total changes	-	(431,348)	(431,348)
Balance at 30 June 2013	1,095,260	644,795,176	645,890,436
Note(s)	22		

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Cash Flow Statement

	Note(s)	2013 R	2012 R
Cash flows from operating activities			
Receipts			
Receipts from customers		211,140,742	203,052,556
Grants		69,189,000	60,157,272
Interest income		2,261,109	1,729,259
Other receipts		1,775,815	930,450
		284,366,666	265,869,537
Payments			
Personnel costs		(62,101,321)	(56,390,941)
Suppliers		(186,475,343)	(169,898,025)
Finance costs		(813,858)	(953,444)
		(249,390,522)	(227,242,410)
Net cash flows from operating activities	38	34,976,144	38,627,127
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(28,033,004)	(24,458,615)
Proceeds from sale of property, plant and equipment	4	1,071,830	251,842
Purchase of other intangible assets	5	(310,280)	(78,140)
Increase in financial investments		(5,162,469)	(16,746,326)
Decrease / (Increase) in loans and receivables		351,859	1,552,463
Net cash flows from investing activities		(32,082,064)	(39,478,776)
Cash flows from financing activities			
Movement in long term loan		(1,872,966)	5,039,861
Finance lease payments		(864,050)	(764,127)
Net cash flows from financing activities		(2,737,016)	4,275,734
Net increase/(decrease) in cash and cash equivalents		157,064	3,424,085
Cash and cash equivalents at the beginning of the year		13,366,409	9,942,324
Cash and cash equivalents at the end of the year	13	13,523,473	13,366,409

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	172,328,194	(2,443,328)	169,884,866	163,354,770	(6,530,096)	50
Rendering of services	1,717,041	869,493	2,586,534	2,128,637	(457,897)	50
Rental of facilities and equipment	177,305	45,000	222,305	387,449	165,144	
Licences and permits	4,818,062	70,000	4,888,062	4,705,421	(182,641)	
Administration and management fees received	1,865	-	1,865	2,200	335	
Fees earned	7,771	15,000	22,771	29,780	7,009	
Other income	404,593	(15,000)	389,593	672,005	282,412	
Interest received - investment	264,040	-	264,040	2,261,109	1,997,069	50
Total revenue from exchange transactions	179,718,871	(1,458,835)	178,260,036	173,541,371	(4,718,665)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	52,049,937	(11,000,000)	41,049,937	38,105,895	(2,944,042)	50
Property rates - penalties imposed	5,789,000	-	5,789,000	5,597,986	(191,014)	
Government grants & subsidies	61,028,000	13,480,000	74,508,000	65,408,235	(9,099,765)	50
Transfer revenue						
Fines	301,576	-	301,576	46,265	(255,311)	
Total revenue from non-exchange transactions	119,168,513	2,480,000	121,648,513	109,158,381	(12,490,132)	
Total revenue	298,887,384	1,021,165	299,908,549	282,699,752	(17,208,797)	
Expenditure						
Personnel	(60,077,521)	(2,305,245)	(62,382,766)	(62,101,321)	281,445	
Remuneration of councillors	(4,926,033)	218,800	(4,707,233)	(4,601,212)	106,021	
Depreciation and amortisation	(35,000,000)	-	(35,000,000)	(31,515,003)	3,484,997	50
Impairment loss/ Reversal of impairments	-	-	-	(3,166)	(3,166)	
Finance costs	(2,152,500)	(1,000,000)	(3,152,500)	(813,858)	2,338,642	50
Debt impairment	(10,000,000)	(585,000)	(10,585,000)	(6,456,781)	4,128,219	50
Repairs and maintenance	(7,305,000)	(1,659,274)	(8,964,274)	(8,961,015)	3,259	
Bulk purchases	(132,315,000)	3,085,196	(129,229,804)	(129,226,756)	3,048	
Grants and subsidies paid	(22,669,000)	17,967,000	(4,702,000)	(1,165,000)	3,537,000	
General Expenses	(27,815,397)	(9,812,419)	(37,627,816)	(37,564,363)	63,453	
Total expenditure	(302,260,451)	5,909,058	(296,351,393)	(282,408,475)	13,942,918	
Operating surplus	(3,373,067)	6,930,223	3,557,156	291,277	(3,265,879)	
Loss on disposal of assets and liabilities	-	-	-	(844,768)	(844,768)	
Deficit before taxation	(3,373,067)	6,930,223	3,557,156	(553,491)	(4,110,647)	

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note
	R	R	R	R	R	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(3,373,067)	6,930,223	3,557,156	(553,491)	(4,110,647)	

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	350,000	-	350,000	1,487,716	1,137,716	50
Loans and receivables	-	-	-	135,838	135,838	
Other receivables from exchange transactions	1,500,000	-	1,500,000	297,481	(1,202,519)	50
VAT receivable	-	-	-	13,290,111	13,290,111	
Consumer debtors	36,123,000	-	36,123,000	43,111,581	6,988,581	
Investments	1,050,000	-	1,050,000	27,502,994	26,452,994	
Cash and cash equivalents	2,587,000	(40,000)	2,547,000	13,523,473	10,976,473	
	41,610,000	(40,000)	41,570,000	99,349,194	57,779,194	
Non-Current Assets						
Investment property	3,960,000	-	3,960,000	-	(3,960,000)	
Property, plant and equipment	650,069,000	400,000	650,469,000	627,020,903	(23,448,097)	50
Intangible assets	-	-	-	438,435	438,435	
Heritage assets	-	-	-	8,244,763	8,244,763	
Loans and receivables	510,000	-	510,000	418,803	(91,197)	
Investments	50,000	-	50,000	103,037	53,037	
	654,589,000	400,000	654,989,000	636,225,941	(18,763,059)	
Total Assets	696,199,000	360,000	696,559,000	735,575,135	39,016,135	
Liabilities						
Current Liabilities						
Finance lease obligation	500,000	100,000	600,000	534,065	(65,935)	
Payables from exchange transactions	32,218,000	-	32,218,000	27,133,339	(5,084,661)	
Consumer deposits	2,300,000	-	2,300,000	2,844,579	544,579	
Retirement benefit obligation	2,000,000	-	2,000,000	981,000	(1,019,000)	
Unspent conditional grants and receipts	-	-	-	18,325,447	18,325,447	50
Provisions	8,500,000	-	8,500,000	7,248,546	(1,251,454)	
Current portion of long term loan	2,000,000	-	2,000,000	929,782	(1,070,218)	
	47,518,000	100,000	47,618,000	57,996,758	10,378,758	
Non-Current Liabilities						
Finance lease obligation	1,500,000	-	1,500,000	1,246,257	(253,743)	
Retirement benefit obligation	6,500,000	-	6,500,000	14,141,000	7,641,000	
Long term loan	8,500,000	300,000	8,800,000	8,727,956	(72,044)	
	16,500,000	300,000	16,800,000	24,115,213	7,315,213	
Total Liabilities	64,018,000	400,000	64,418,000	82,111,971	17,693,971	
Net Assets	632,181,000	(40,000)	632,141,000	653,463,164	21,322,164	

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note
	R	R	R	R	R	
Net Assets						
Reserves						
Housing operating account	1,095,000	-	1,095,000	1,095,260	260	
Accumulated surplus	631,086,000	(40,000)	631,046,000	652,367,904	21,321,904	
Total Net Assets	632,181,000	(40,000)	632,141,000	653,463,164	21,322,164	

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note
	R	R	R	R	R	

Cash Flow Statement

Cash flows from operating activities

Receipts

Receipts from customers	208,280,000	-	208,280,000	211,140,742	2,860,742
Grants	49,787,000	18,469,000	68,256,000	69,189,000	933,000
Interest income	264,000	-	264,000	2,261,109	1,997,109
Other receipts	-	-	-	1,775,815	1,775,815
	258,331,000	18,469,000	276,800,000	284,366,666	7,566,666

Payments

Personnel costs	(60,077,521)	(2,305,245)	(62,382,766)	(62,101,321)	281,445
Suppliers	(173,871,479)	864,245	(173,007,234)	(184,693,591)	(11,686,357)
Finance costs	(2,153,000)	-	(2,153,000)	(2,595,612)	(442,612)
	(236,102,000)	(1,441,000)	(237,543,000)	(249,390,524)	(11,847,524)

Net cash flows from operating activities	22,229,000	17,028,000	39,257,000	34,976,142	(4,280,858)
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Cash flows from investing activities

Purchase of property, plant and equipment	(24,409,000)	(17,428,000)	(41,837,000)	(28,343,282)	13,493,718
Proceeds from sale of property, plant and equipment	-	-	-	1,071,830	1,071,830
Increase in financial investments	200,000	-	200,000	(5,162,469)	(5,362,469)
Decrease / (Increase) in loans and receivables	296,000	-	296,000	351,859	55,859
Net cash flows from investing activities	(23,913,000)	(17,428,000)	(41,341,000)	(32,082,062)	9,258,938

Cash flows from financing activities

Movement in long term loan	2,800,000	400,000	3,200,000	(1,872,966)	(5,072,966)
Finance lease payments	(800,000)	(40,000)	(840,000)	(864,050)	(24,050)
Net cash flows from financing activities	2,000,000	360,000	2,360,000	(2,737,016)	(5,097,016)

Net increase/(decrease) in cash and cash equivalents	316,000	(40,000)	276,000	157,064	(118,936)
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Cash and cash equivalents at the beginning of the year	2,271,000	-	2,271,000	13,366,409	11,095,409
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Cash and cash equivalents at the end of the year	2,587,000	(40,000)	2,547,000	13,523,473	10,976,473
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Reconciliation

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1. Basis of Preparation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act, 56 of 2003.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy.

1.1 Presentation of currency

These annual financial statements are presented in the South African Rand.

1.2 Going concern assumption

The annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 2012/07/01 to 2013/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.4 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.5 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.6 Standards, Amendments to Standards and Interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality.

GRAP 18 Segment reporting

GRAP 20 Related party disclosures

GRAP 105 Transfer of functions between entities under common control

GRAP 106 Transfer of functions between entities not under common control

GRAP 107 Mergers

The municipality has not applied the above standards that have been issued but are not yet effective. These will be applied by the municipality when they become effective.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.7 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard / Interpretation	Effective Date	Impact
GRAP 21: Impairment of non-cash generating assets	01 April 2012	Additional Disclosure
GRAP 23: Revenue from Non-exchange transactions	01 April 2012	Additional Disclosure
GRAP 24: Presentation of Budget Information in the financial statements	01 April 2012	Additional Disclosure
GRAP 26: Impairment of cash-generating assets	01 April 2012	Additional Disclosure
GRAP 103: Heritage assets	01 April 2012	Additional Disclosure
GRAP 104: Financial instruments	01 April 2012	Additional Disclosure

1.8 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Post retirement benefits

The present value of the post retirement medical obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 18.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that the debtors are impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.9 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.9 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition. Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Property and permanent fixtures	30 years
Plant and equipment	10 years
Vehicles	7 years
Office equipment and furniture	7 years
Leased assets	5 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

1.11 Impairment of non-cash-generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated to the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less cost to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss. An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit on a prorata basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If no such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in the prior periods. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.12 Landfill restoration

The municipality has an obligation to restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of restoring the site. This cost relates to the restoration of the municipal landfill site.

1.13 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured as fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5 years

1.14 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.14 Heritage assets (continued)

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Transitional provision

The municipality changed its accounting policy for heritage assets in 2013. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have accordingly been recognised at provisional amounts, as disclosed in . The transitional provision expires on 2015/06/30.

Until such time as the measurement period expires and heritage assets are recognised and measured in accordance with the requirements of the Standard of GRAP on Heritage assets, the municipality need not comply with the Standards of GRAP on (to the extent that these Standards prescribe requirements for heritage assets):

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Heritage assets implies that any associated presentation and disclosure requirements need not be complied with for heritage assets not measured in accordance with the requirements of the Standard of GRAP on Heritage assets.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.15 Financial instruments

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans and receivables	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans and other payables	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following category:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

1.16 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.16 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.17 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Inventories are valued at the lower of cost and net realisable value. In general, the basis of allocating costs to inventory items is on the first-in-first-out basis. Subsequent to initial recognition, the lease assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment.

1.18 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.19 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.19 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical aid), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of the compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Post-employment benefits

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out the valuations of these obligations.

1.20 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

A provision is used only for expenditures for which the provision was originally recognised.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

1.21 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.21 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

1.22 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

Fines

Fines are recognised as revenue when the fines are paid.

1.23 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.24 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.25 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.27 Irregular expenditure

Irregular expenditure as defined in section 1 of the Municipal Finance Management Act, No 56 of 2003, is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.28 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.29 Housing operating account

The Housing Development Fund (HDF) was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. This is currently known as the Housing Operating Account. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing operating account. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing operating account. Monies standing to the credit of the Housing operating account can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.30 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.31 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.32 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.33 Related parties

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
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2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- Grap 21: Impairment of non-cash generating assets
- Grap 23: Revenue from non-exchange transactions
- Grap 24: Presentation of budget information in the financial statements
- Grap 26: Impairment of cash-generating assets
- Grap 103: Heritage assets
- Grap 104: Financial instruments

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2013 is as follows:

Statement of financial position

Property, plant and equipment

Previously stated	- 629,613,172
Adjustment	- (5,430,253)
	- 624,182,919

Accumulated surplus

Previously stated	- 642,871,283
Adjustment	- 2,814,510
	- 645,685,793

Statement of Financial Performance

Depreciation

Previously stated	- 32,670,219
Adjustment	- (562,422)
	- 32,107,797

Notes to the Annual Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 103: Heritage Assets

Grp 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the cost of the fair value of the asset can be measured reliably.

Grp 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by a municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The adoption of this amendment has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R			2012 R		
4. Property, plant and equipment						
	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	341,177,098	(83,151,624)	258,025,474	342,449,761	(61,400,642)	281,049,119
Motor vehicles	13,954,256	(7,454,518)	6,499,738	13,305,214	(5,841,413)	7,463,801
Infrastructure	394,005,974	(122,349,905)	271,656,069	393,731,879	(106,494,366)	287,237,513
Other equipment	15,636,562	(10,962,065)	4,674,497	15,585,442	(10,582,108)	5,003,334
Work in progress	67,534,271	-	67,534,271	40,653,704	-	40,653,704
Finance leased assets	6,381,189	4,676,937	11,058,126	6,433,097	(4,116,919)	2,316,178
Total	838,689,350	(219,241,175)	619,448,175	812,159,097	(188,435,448)	623,723,649

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Restated Opening balance	Additions	Additions fair market value	Disposals	Transferred from non- current asset held for sale	Depreciation	Impairment loss	Total
Land, buildings and infrastructure	566,007,601	273,093	-	(1,876,630)	1,228,071	(28,020,381)	-	537,611,754
Plant and machinery	2,223,011	230,303	19,446	(218,028)	-	(920,467)	(3,166)	1,331,099
Motor vehicles	7,386,598	649,040	-	-	-	(1,535,900)	-	6,499,738
Office equipment	3,130,625	-	122,402	(71,282)	-	(379,957)	-	2,801,788
Capital work in progress	40,653,704	26,880,567	-	-	-	-	-	67,534,271
Finance leased assets	2,118,759	-	-	(51,908)	-	(560,840)	-	1,506,011
Landfill site	2,203,351	-	-	-	-	(39,837)	-	2,163,514
	623,723,649	28,033,003	141,848	(2,217,848)	1,228,071	(31,457,382)	(3,166)	619,448,175

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Restated Opening balance	Additions	Additions at fair market value	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land, buildings and infrastructure	581,179,350	1,277,513	-	-	12,740,938	(622,270)	(28,567,930)	-	566,007,601
Plant and machinery	1,745,409	937,362	29,008	(9,713)	-	-	(479,055)	-	2,223,011
Motor vehicles	6,688,728	1,943,060	-	(3,366)	-	-	(1,241,824)	-	7,386,598
Office equipment	3,524,002	156,141	319,607	(5,871)	-	-	(861,615)	(1,639)	3,130,625
Capital work in progress	35,120,806	18,273,836	-	-	(12,740,938)	-	-	-	40,653,704
Finance leased assets	3,205,205	45,383	-	(232,892)	-	-	(838,119)	(60,818)	2,118,759
Landfill site	417,869	1,825,319	-	-	-	-	(39,837)	-	2,203,351
	631,881,369	24,458,614	348,615	(251,842)	-	(622,270)	(32,028,380)	(62,457)	623,723,649

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,275,115	(836,681)	438,434	964,835	(779,060)	185,775

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
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5. Intangible assets (continued)

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	185,775	310,280	(57,621)	438,434

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Other changes, movements	Amortisation	Total
Computer software	169,781	78,140	17,271	(79,417)	185,775

6. Heritage assets

	2013			2012		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	8,244,763	-	8,244,763	8,244,763	-	8,244,763

Reconciliation of heritage assets 2013

	Opening balance	Total
Historical buildings	8,244,763	8,244,763

Reconciliation of heritage assets 2012

	Opening balance	Total
Historical buildings	8,244,763	8,244,763

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
6. Heritage assets (continued)		
Transitional provisions		
Heritage assets recognised at provisional amounts		
In accordance with the transitional provisions as per Directive 2 of the GRAP Reporting Framework, as disclosed in note 2, certain heritage asset with a carrying value of R 8,244,763 (2012: R 8,244,763) was recognised at provisional amounts.		
Due to initial adoption of GRAP 103		
Steps taken to establish the values of heritage asset recognised at provisional amounts due to the initial adoption of GRAP 103, is as follows:		
Heritage assets were valued by an independent valuer. These values were determined upon initial recognition of property, plant and equipment in terms of GRAP 17. Due to the change in accounting policy, heritage assets were recognised at the deemed cost determined with the adoption on Grap 17. Certain assets were determined at a provisional value in terms of the transitional provisions applicable to the new adoption of Grap 103.		
Provisional amounts retrospectively adjusted during the year, are as follows (refer to note 2 for effect on the annual financial statements:		
Historical buildings	8,244,763	8,244,763
The date at which full compliance with GRAP 103 is expected, is 30 June 2015.		
7. Inventories		
Consumable stores	1,487,716	549,719
8. Loans and receivables		
At amortised cost		
Loans and receivables	554,641	906,500
Non-current assets		
At amortised cost	418,803	722,098
Current assets		
At amortised cost	135,838	184,402
9. Other receivables from exchange transactions		
Conditional grants overspent	-	1,337,809
Stamps on hand	2,036	2,036
Department of Health	295,445	-
	297,481	1,339,845

The amount reflected as outstanding from the Department of Health relates to an amount due for the transfer of assets from the Municipality to the Department of Health for the transfer of the clinics.

The details of the conditional grant overspent is detailed below.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
9. Other receivables from exchange transactions (continued)		
Details of conditional grants overspent		
Hostel development and upgrading	1,337,810	1,337,810
Provision for doubtful debt	(1,337,810)	-
	-	1,337,810
The overspent grant relates to municipal funds that were spent for the upgrading of the hostel development. Funds were to be re-imbursed by the Department of Human Settlements. Allocations have been made in the 2012/2013 Division of Revenue Act for an amount to be distributed for the upgrade of the hostel, but the amount has been removed from the Division of Revenue Act in its adjustments budget for two consecutive years. A provision for a doubtful debt was therefore raised.		
10. VAT receivable		
VAT	13,290,111	11,493,139
11. Trade and other receivables from exchange transactions		
Gross balances		
Rates	57,656,123	48,598,683
Electricity	7,276,582	5,755,213
Refuse	9,568,972	7,793,681
Sundry debtors	3,523,041	4,465,560
	78,024,718	66,613,137
Less: Allowance for impairment		
Rates	(20,796,814)	(15,189,121)
Electricity	(1,762,868)	(3,797,280)
Refuse	(9,032,379)	(7,594,561)
Sundry debtors	(3,321,076)	(3,797,280)
	(34,913,137)	(30,378,242)
Net balance		
Rates	36,859,309	33,409,562
Electricity	5,513,714	1,957,933
Refuse	536,594	199,120
Sundry debtors	201,965	668,280
	43,111,582	36,234,895
Rates		
Current (0 -30 days)	3,046,525	2,193,534
31 - 60 days	1,275,537	1,014,162
61 - 90 days	1,315,857	1,365,903
> 90days	31,221,390	28,835,963
	36,859,309	33,409,562
Electricity		
Current (0 -30 days)	4,508,824	1,957,933
31 - 60 days	1,004,890	-
	5,513,714	1,957,933

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
11. Trade and other receivables from exchange transactions (continued)		
Refuse		
Current (0 -30 days)	319,708	199,120
31 - 60 days	216,886	-
	536,594	199,120
Sundry debtors		
Current (0 -30 days)	116,068	411,558
31 - 60 days	85,897	50,660
61 - 90 days	-	106,862
> 90 days	-	99,200
	201,965	668,280
Reconciliation of allowance for impairment		
Balance at beginning of the year	(30,378,242)	(30,676,620)
Contributions to allowance	(34,913,137)	(30,378,242)
Reversal of allowance	30,378,242	30,676,620
	(34,913,137)	(30,378,242)
Consumer debtors past due but not impaired		
At 30 June 2013, R11,890,113 (2012: R7,299,734) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	7,991,125	4,762,146
2 months past due	2,583,131	1,064,822
3 months past due	1,315,857	1,472,766
Consumer debtors impaired		
As of 30 June 2013, consumer debtors of R 34,913,137 (2012: R 30,378,242) were impaired and provided for.		
The ageing of these loans is as follows:		
Less than 3 months but highly improbable	3,691,747	-
Over 3 months	31,221,390	30,378,242
12. Investments		
Current portion		
FNB Call Account - Account Number 62033811995	57,703	57,073
ABSA Call Account - Account Number 9106646490	1,252	1,223
FNB Money Market - NDPG - Account Number 62232266991	10,461,537	6,062,746
FNB Money Market - MIG - Account Number 62281385130	1,599,340	2,453,461
FNB Land Sales - Account Number 62216019019	1,162,814	1,133,277
FNB MSIG - Account Number 62216024737	2,408,586	2,346,410
FNB Money Market - Small Town Rehabilitation - Account Number 62347581050	9,266,769	6,053,556
FNB Money Market - INEP - Account Number 62347581060	526,603	4,239,296
FNB 32 day call - Housing Operating - Account Number 74407973409	2,018,390	-
	27,502,994	22,347,042

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
12. Investments (continued)		
Non-current portion		
Nedbank fixed deposits - Account Number 19542952	22,063	22,063
Borough of Dundee - Certificate Number B719	7,200	7,200
Standard Bank - Account Number 75075646	12,528	12,528
FNB fixed deposit - Account Number 71021254116	36,246	29,729
FNB fixed deposit - Account Number 71048724530	11,000	11,000
FNB fixed deposit - Account Number 71066697123	14,000	14,000
	103,037	96,520

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6,738	8,700
Bank balances	13,516,735	13,357,709
	13,523,473	13,366,409

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
First National Bank - Current Account - Account Number 522000363994	13,993,617	14,743,109	8,691,212	13,516,735	13,357,709	9,942,324

14. Discontinued operations or disposal groups or non-current assets held for sale

The municipal clinics have been taken over by the Department of Health with effect from the 01 July 2012. This means that the municipality has discontinued the operations of the municipal clinics with effect from that date. The assets and liabilities of the municipal clinics are set out below.

Surplus / Deficit of Discontinued Operation

Revenue	-	1,950,062
Expenses	-	(3,065,687)
	-	(1,115,625)

Assets and liabilities

Property, plant and equipment	-	295,445
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Non-current asset held for sale

Property, plant and equipment	-	1,228,071
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The non-current asset held for sale was in terms of the sale of land at the Fire Station to an enterprise for the development of a shopping mall. All the conditions were met to classify the asset as a non-current asset held for sale. However, the sale did not proceed and the asset was reclassified as property, plant and equipment. Details of the value of the asset is detailed above.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
15. Finance lease obligation		
Minimum lease payments due		
- within one year	889,922	1,324,426
- in second to fifth year inclusive	1,657,207	2,441,507
	2,547,129	3,765,933
less: future finance charges	(766,807)	(1,121,561)
Present value of minimum lease payments	1,780,322	2,644,372
Present value of minimum lease payments due		
- within one year	534,065	833,133
- in second to fifth year inclusive	1,246,257	1,811,239
	1,780,322	2,644,372
Non-current liabilities	1,246,257	1,811,239
Current liabilities	534,065	833,133
	1,780,322	2,644,372

The above lease relates to the lease of municipal motor vehicles and equipment.

Interest rates are linked to prime less 2% at contract date. Contingent rents have been recognised as an expense R315,521 (2012: R257,920) as a result of certain conditions in the contract. The leased assets as indicated in note 3 and annexure B. These assets are financed by Wesbank (a division of Firststrand bank Limited), Fleet Africa and Motswako. The average lease term is 5 years.

16. Payables from exchange transactions

Trade payables	25,429,195	19,396,426
Payments received in advanced - contract in process	568,295	-
Other payables 2	-	(1)
Sundry creditor	135,850	19,280
Audit fee accrual	999,999	999,999
	27,133,339	20,415,704

17. Consumer deposits

Electricity	2,844,579	2,620,285
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Interest is not paid to consumers when deposits are refunded.

Guarantees held in lieu of electricity deposits R1,885,965 (2012: R1,885,965).

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
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18. Employee benefit obligations

Defined benefit plan

Municipal councillors and employees belong to the Natal Joint Municipal Pension Fund (Superannuation) and the Natal Joint Pension Fund (Retirement) or provident fund which are administered by the board of trustees as well as the Government Employees Pension Fund and the Associated Institution Pension Fund.

These schemes cannot be broken down per municipality as they are considered to be multi-employer schemes and hence are treated as defined contribution schemes by the municipality.

Post retirement medical aid plan

The municipality provides post retirement health care benefits to employees who have terminated their employment due to age, ill health or other disability. The municipality currently provides a medical subsidy to thirty three (2012: 32) retired employees.

Key assumptions used

Assumptions used at the reporting date:

Discount rates used (D)	7.25 %	8.25 %
Consumer price inflation (C)	6.25 %	6.00 %
Health care cost inflation (H)	6.75 %	6.75 %
Salary inflation (S)	7.15 %	6.90 %
Net discount rate $((1+D)/(1+H)-1)$	0.47 %	1.41 %

Short term portion of retirement benefit obligations	981,000	960,000
Long term portion of retirement benefit obligations	14,141,000	11,641,000
	15,122,000	12,601,000

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Good governance grant	84,547	84,547
Small town rehabilitation grant	7,653,748	5,591,516
Neighbourhood development partnership grant	8,508,015	5,167,953
INEP	-	3,994,575
Municipal Infrastructure Grant (MIG)	1,554,137	1,206,091
Sport infrastructure grant	525,000	-
	18,325,447	16,044,682

These amounts are invested in a ring-fenced investment until utilised.

MIG Grant

Balance unspent at the beginning of the year	1,206,091	-
Current year receipts	12,749,000	10,510,000
Conditions met - transferred to revenue	(12,400,954)	(9,303,909)
	1,554,137	1,206,091

MAP Grant

Balance unspent at the beginning of the year	-	210,291
Conditions met - transferred to revenue	-	(210,291)
	-	-

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
19. Unspent conditional grants and receipts (continued)		
FMG Grant		
Current year receipts	1,500,000	1,450,000
Conditions met - transferred to revenue	(1,500,000)	(1,450,000)
	-	-
Good governance grant		
Balance unspent at the beginning of the year	84,547	84,547
Neighbourhood development partnership grant		
Balance unspent at the beginning of the year	5,167,953	2,097,942
Funds returned to National Treasury	(2,100,000)	-
Current year receipts	11,113,000	7,600,000
Conditions met - transferred to revenue	(5,672,938)	(4,529,989)
	8,508,015	5,167,953
Small town rehabilitation grant		
Balance unspent at the beginning of the year	5,591,516	-
Current year receipts	9,200,000	7,220,000
Conditions met - transferred to revenue	(7,137,768)	(1,628,484)
	7,653,748	5,591,516
INEP		
Balance unspent at the beginning of the year	3,994,575	-
Brought forward from other receivables	-	(156,387)
Current year receipts	-	4,500,000
Conditions met - transferred to revenue	(3,994,575)	(349,038)
	-	3,994,575
MSIG		
Current year receipts	800,000	-
Conditions met - transferred to revenue	(800,000)	-
	-	-
Sport infrastructure grant		
Current year receipts	525,000	-

MIG Grant

This grant is used to address backlogs in municipal infrastructure required for the provision of basic services. It is currently used for the construction of gravel roads, building of creches and for fencing of the landfill site.

INEP Grant

This grant is used for the installation, rehabilitation and refurbishment of electricity infrastructure at a local level to support the sustained supply of electricity and to eradicate the electrification backlogs.

MAP Grant

The management assistance programme is funding from provincial government used to assist in the areas of financial management and other capital projects required to ensure the financial viability of the municipality.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
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19. Unspent conditional grants and receipts (continued)

MSIG Grant

This grant is used for infrastructure, capacity building and restructuring. The capacity building and restructuring grants were set up to assist the municipality in developing their planning, budgeting, financial management and technical skills. Furthermore, the municipality used this grant for the payment of the valuation roll expenses. The municipality was also granted a loan from the DBSA to fund the implementation of the Municipal Property Rates Act. This grant will be used to assist in the payment of the DBSA loan which is repayable.

Finance Management Grant

The main objective of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through capacity building in financial management.

Neighbourhood Development Partnership Grant

This grant is utilised for neighbourhood upliftment and advancement. Projects have been committed and are in progress.

Good Governance Grant

This grant is used to assist the Municipality in achieving good governance.

Sport infrastructure grant

This grant is used for the upgrading of sport facilities.

20. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Legal proceedings	103,616	38,235	(103,616)	-	38,235
Provision for landfill site	484,000	48,400	-	-	532,400
Leave pay provision	6,950,180	6,677,911	-	(6,950,180)	6,677,911
	7,537,796	6,764,546	(103,616)	(6,950,180)	7,248,546

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Legal proceedings	-	103,616	-	-	-	103,616
Provision for landfill site	440,000	-	-	-	44,000	484,000
Leave pay provision	5,768,368	6,950,180	-	(5,768,368)	-	6,950,180
Provision for housing project (SROR)	2,421,002	-	(2,421,002)	-	-	-
	8,629,370	7,053,796	(2,421,002)	(5,768,368)	44,000	7,537,796

The landfill site provision is a provision to rehabilitate the landfill site. The landfill site currently has an estimated useful life of 5 years. A valuation for the rehabilitation of the landfill site was conducted by the municipality and certified by authorised civil engineers.

The leave pay provision is calculated on all outstanding leave balances as at 30 June 2013. This is the amount that the employees would be entitled to receive should the employees resign or cease employment with the municipality on 30 June 2013.

21. Long term loan

The municipality has received three loans from the Development Bank of Southern Africa (DBSA). The three loans fund the implementation of the new municipal property rates act (valuation roll), the purchase of plant and equipment and to fund the upgrade of the electricity infrastructure. The loan term of the property valuation loan is 4 years, repayable in 2013, the loan term for the plant and equipment is 10 years and the term for the electricity infrastructure is 20 years. The interest rate is 6.75%.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
21. Long term loan (continued)		
DBSA Loans		
MPRA	586,980	1,710,930
Loan 1 - Plant and equipment	2,738,590	6,909,999
Loan 2 - Electricity upgrade	6,332,168	2,909,775
Less: Current portion transferred to current liabilities	(929,782)	(991,847)
	8,727,956	10,538,857
22. Housing Operating Account		
Housing operating account	1,095,260	1,095,260
23. Revenue		
Rendering of services	2,128,637	2,658,265
Service charges	163,354,770	147,416,913
Rental of facilities and equipment	387,449	435,367
Licences and permits	4,705,421	4,686,611
Administration and management fees received	2,200	3,320
Fees earned	29,780	58,842
Other income	672,005	868,288
Interest received - investment	2,261,109	1,729,259
Property rates	38,105,895	35,130,822
Property rates - penalties imposed	5,597,986	5,262,311
Government grants & subsidies	65,408,235	46,505,370
Fines	46,265	196,025
	282,699,752	244,951,393
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	163,354,770	147,416,913
Rendering of services	2,128,637	2,658,265
Rental of facilities and equipment	387,449	435,367
Licences and permits	4,705,421	4,686,611
Administration and management fees received	2,200	3,320
Fees earned	29,780	58,842
Other income	672,005	868,288
Interest received - investment	2,261,109	1,729,259
	173,541,371	157,856,865
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	38,105,895	35,130,822
Property rates - penalties imposed	5,597,986	5,262,311
Transfer revenue		
Government grants & subsidies	65,408,235	46,505,370
Fines	46,265	196,025
	109,158,381	87,094,528

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
24. Property rates		
Rates received		
Property rates	69,040,278	63,296,672
Less: Income forgone	(30,934,383)	(28,165,850)
	<u>38,105,895</u>	<u>35,130,822</u>
Property rates - penalties imposed	5,597,986	5,262,311
	<u>43,703,881</u>	<u>40,393,133</u>

Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being 30 June 2013 (30 June 2012). Interest at 1.5% per month (2012: 1.5%) and a collection fee of 10% (2012: 10%), is levied on rates outstanding one month after due date.

The new general valuation will be implemented on 01 July 2013.

Rates are levied on the following property valuations as per the valuation roll

Agriculture	507,914,000	534,948,000
Agricultural smallholding	93,969,000	95,409,000
Commercial	351,249,000	349,883,000
Communal property	170,321,000	143,005,000
Game farms	7,005,000	7,005,000
Industrial	354,378,000	333,313,000
Institutional	22,812,000	22,812,000
Municipal	214,752,333	221,895,333
Public benefit organisations	1,700,000	2,700,000
Public service infrastructure	44,444,845	44,594,845
Residential	1,596,866,120	1,582,978,120
Residential hospitality	24,280,000	24,280,000
Sectional title - Commercial	11,739,000	7,800,000
Sectional Title - Residential	55,851,000	55,851,000
Sectional title - Residential hospitality	2,043,000	2,043,000
State owned	291,337,000	292,387,000
Place of worship	50,892,000	51,586,000
	<u>3,801,553,298</u>	<u>3,772,490,298</u>

25. Service charges

Sale of electricity	158,001,338	141,628,841
Refuse removal	5,353,432	5,788,072
	<u>163,354,770</u>	<u>147,416,913</u>

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
26. Government grants and subsidies		
Operating grants		
Equitable share	29,647,000	25,827,000
Department of health grant	1,413,000	1,950,062
Finance management grant	1,500,000	1,450,000
Municipal assistance programme	-	210,291
Museum	268,000	250,000
Provincialisation of libraries	894,000	851,597
Community library services	-	85,000
Municipal systems improvement grant	800,000	70,000
National youth development grant	1,680,000	-
	36,202,000	30,693,950
Capital grants		
Municipal infrastructure grant	12,400,953	9,303,909
INEP	3,994,575	349,038
Neighbourhood development partnership grant	5,672,938	4,529,989
Small town rehabilitation grant	7,137,769	1,628,484
	29,206,235	15,811,420
	65,408,235	46,505,370

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
27. General expenses		
Advertising	266,998	291,861
Auditors remuneration	949,929	979,373
Bank charges	710,565	943,514
Cleaning	13,357	34,891
Commission paid	2,186,147	1,240,171
Consulting and professional fees	1,527,191	1,026,036
Donations	153,831	40,000
Entertainment	77,066	29,996
Insurance	777,687	599,077
IT expenses	29,655	-
Lease rentals on operating lease	1,781,753	1,791,754
Fleet	571,671	304,636
Levies	493,224	21,781
Medical expenses	-	65,675
Fuel and oil	2,007,236	1,524,808
Postage and courier	337,400	285,072
Printing and stationery	549,650	354,355
Promotions	20,000	12,882
Protective clothing	383,145	471,679
Project maintenance costs	996,142	1,051,645
Security (Guarding of municipal property)	9,102,906	3,997,118
Software expenses	864,426	821,491
Telephone and fax	1,973,007	2,001,201
Training	1,680,622	185,255
Travel - local	529,542	454,761
Refuse	209,956	149,995
Rental and hire of plant and equipment	1,626,135	995,983
Electricity	1,496,031	-
Water	1,409,845	1,478,079
Public participation	40,863	128,541
Internal audit fees	1,045,355	612,532
Indigent burials	113,086	169,249
Staff bursaries	72,875	73,240
Updating of asset register	-	1,803,755
Publicity	54,393	55,149
Registration support fees	295,818	-
Valuation roll expenses	2,242,048	195,250
Chemicals	60,029	68,644
Other expenses	914,779	1,694,661
	37,564,363	25,954,110

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
28. Employee related costs		
Basic	40,554,636	37,277,234
Bonus	4,087,824	3,473,056
Medical aid - company contributions	2,769,052	2,747,856
UIF	391,798	345,848
SDL	551,392	464,779
Leave pay provision charge	(272,270)	791,598
Post-employment benefits	2,521,000	1,313,000
Overtime payments	2,068,912	1,957,271
Long-service awards	9,000	-
Car allowance	1,694,427	1,391,241
Housing benefits and allowances	235,346	306,451
Group life insurance	283,240	239,997
Other payroll levies	25,456	15,643
Other allowances	769,741	658,376
Pension funds	6,053,199	5,179,615
Redemption of leave	358,568	228,976
	62,101,321	56,390,941

Remuneration of Municipal Manager

Annual Remuneration	951,761	951,761
Unemployment insurance fund	1,689	1,497
Reimbursive travelling and subsistence claims	5,390	11,152
Leave pay	57,196	-
	1,016,036	964,410

The municipal manager was re-employed for another five year period of employment. When her first employment contract had ended, she was paid for her leave not taken.

Remuneration of Chief Financial Officer

Annual Remuneration	602,959	567,067
Travel Allowance	177,459	130,176
Unemployment insurance fund	1,689	1,497
	782,107	698,740

Remuneration of Director Planning, Economic and Social Services

Annual Remuneration	501,816	440,859
Travel Allowance	167,926	128,604
Telephone allowance	30,978	30,890
Subsistence and travelling allowance	8,430	21,421
Housing allowance	85,712	80,690
Acting allowance	7,113	15,000
UIF	1,689	1,497
	803,664	718,961

Remuneration Director Corporate Services

Annual Remuneration	620,230	451,664
Travel allowance	-	38,103
UIF	1,689	1,248
Subsistence and travelling	38,078	-
	659,997	491,015

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
28. Employee related costs (continued)		
Remuneration of Director Technical Services		
Annual Remuneration	431,224	325,621
Travel allowance	180,000	135,000
Telephone allowance	6,658	4,552
UIF	1,689	1,123
Housing	2,349	-
	621,920	466,296
29. Remuneration of councillors		
Mayor	421,010	399,062
Deputy Mayor	321,782	319,250
Executive Committee Members	174,117	164,613
Speaker	336,808	319,250
Councillors	1,577,752	1,517,354
Councillors' pension contribution	403,954	387,103
Councillors allowances	1,365,789	1,252,944
	4,601,212	4,359,576
In-kind benefits		
The Mayor, Deputy Mayor and Speaker are full-time councillors. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor has the use of a Council owned vehicle and council owned back-up vehicle for official duties.		
The Mayor has four full-time bodyguards . The Deputy Mayor and Speaker have two full-time bodyguards.		
30. Debt impairment		
Contributions to debt impairment provision	5,872,703	(298,378)
Debts impaired	584,078	13,180,378
	6,456,781	12,882,000
The doubtful debt provision for 2013: R34,913,137 (2012: R30,676,620) was raised and the prior year provision reversed. During the financial year Council had taken a resolution to write off all debt of R584,078 (2012: R13,180,378).		
31. Investment revenue		
Interest revenue		
Interest from investments	2,261,109	1,729,259
The amount included in Investment revenue arising from exchange transactions amounted to R2,261,109 (2012: R 1,729,259).		
32. Depreciation and amortisation		
Property, plant and equipment	31,457,382	32,028,380
Intangible assets	57,621	79,417
	31,515,003	32,107,797

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
33. Impairment of assets		
Impairments		
Property, plant and equipment	3,166	62,457
Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]		
34. Finance costs		
Finance leases	683,194	765,703
Unwinding discount - Landfill site	48,400	44,000
Other interest paid	82,264	143,741
	813,858	953,444
35. Auditors' remuneration		
External Audit Fees	949,929	979,373
36. Operating lease		
The municipality has an operating lease with Wesbank for the lease of vehicles and the arrangements of the lease includes:		
<ul style="list-style-type: none"> the basis on which contingent rent payable is determined, the existence and terms of renewal or purchases options and escalation clauses; and restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, additional debt and further leasing. 		
Minimum lease payment due		
- within one year	335,112	1,781,753
- in second to fifth year inclusive	-	296,958
	335,112	2,078,711
37. Bulk purchases		
Electricity	129,226,756	113,864,508
38. Cash generated from operations		
Deficit	(553,491)	(11,521,336)
Adjustments for:		
Depreciation and amortisation	31,515,003	32,107,797
Loss on sale of assets and liabilities	844,768	2,161
Finance costs	813,858	953,444
Impairment deficit	3,166	62,457
Debt impairment	6,456,781	12,882,000
Movements in retirement benefit assets and liabilities	2,521,000	-
Movements in provisions	(289,250)	(1,091,574)
Changes in working capital:		
Inventories	(937,997)	(15,899)
Other receivables from exchange transactions	1,042,364	805,207
Consumer debtors	(13,865,779)	(3,615,758)
Payables from exchange transactions	6,717,634	(874,102)
VAT	(1,796,972)	(4,941,156)
Unspent conditional grants and receipts	2,280,765	13,651,902
Consumer deposits	224,294	221,984
	34,976,144	38,627,127

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
39. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	18,325,447	16,044,682
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	35,719,000	26,198,000

This committed expenditure relates to plant and equipment and will be financed by all unspent conditional grants allocations. The amounts not yet contracted are MIG projects that have been approved but have not yet commenced. These will be funded by future MIG allocations.

40. Contingent Liabilities

Litigation is in the process against the municipality relating to an incident where an officer, in the discharge of the officers duties, shot a street vendor, Mr Justice Magoyi, (the plaintiff) who alleges that he was shot wrongfully, unlawfully and without justification. He is seeking damages to the amount R300,000 in respect of pain, suffering and discomfort. The municipality's attorneys and management are not certain of the possible outcome of the case.

The municipality is defending a matter against Xavier Construction. Xavier Construction had requested an interdict to prevent the municipality from advertising certain developments that they believe they were awarded. The municipality is of the opinion that the company had breached its contract with the municipality. The outcome of the matter is not certain.

41. Awards to close family members of persons in the service of the state

Name of Business	V&A Decor and Marquees CC
Relationship of person in the service of the state	Spouse
Name of person in the service of the state	Mrs A Omardath
Capacity of person in the service of the state	Municipal Official
Amount of the award including Vat	R17,350
Name of Business	Superion Trading Enterprise
Relationship of person in the service of the state	Spouse
Name of person in the service of the state	Cllr BA Dlamini
Capacity of person in the service of the state	Member of municipal council
Amount of the award including Vat	R10,400

The above awards were made to close family members of persons in the service of the state in terms of the Municipal SCM Regulations paragraph 45.

Related party transactions

Purchases from related parties

Superion Trading Enterprises	-	10,400
V&A Decor and Marquees CC	-	17,350

The above related party transactions took place during the 2011/2012 financial year. The details of the relationships are detailed above.

All procurements with V&A Decor Marquees CC ceased when Mrs Omardath was appointed on a permanent basis by the municipality. The transactions recorded above were for the period in which Mrs Omardath was employed on a temporary basis.

42. Prior period errors

Adjustments were made to the property rates income due to valuation roll adjustments made by the municipal valuers. A liability for a stock certificate was also raised as it was not previously included in the annual financial statements. Also, credit notes and payments to suppliers for assets were incorrectly sent to the incorrect votes. These were corrected. No prior year was amended as the amount was regarded as immaterial.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
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42. Prior period errors (continued)

Vehicles purchased on an operating lease were incorrectly capitalised in the 2010/2011 financial year. Adjustments were made to remove the vehicles from property, plant and equipment.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Property, plant and equipment	-	(459,270)
Opening Accumulated Surplus or Deficit	-	459,270

43. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The municipality's financial liabilities are all classified as current liabilities, payable within the next 12 months, other than the finance lease, the maturity of which is disclosed in the finance lease note and the long term loans note.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At year end, financial instruments exposed to interest rate risk were as follows:

- Call Deposits
- Notice Deposits
- Long term debtors

Effect of movements in interest rates

2% Increase in interest rate of investments	552,121	448,871
2% Decrease in interest rate of investments	(552,121)	(448,871)
2% Increase in interest rate of loans	(228,761)	(533,199)
2% Decrease in interest rate of loans	228,761	533,199
	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

44. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
45. Fruitless and wasteful expenditure		
Fruitless and wasteful expenditure	2,808	-
Recovered from staff member	(2,808)	-
	<u>-</u>	<u>-</u>

A withdrawal notice was supposed to be placed in the local newspaper. All the details of this notice were given to the said official, but the official had included the withdrawal notice as well as the original advertisement in the newspaper resulting in a cost R2,808.44. This was deemed fruitless and wasteful and the said official re-imbursed the Municipality for such expenditure. It has been fully recovered.

46. Irregular expenditure

Add: Irregular Expenditure - current year	2,291,738	44,316
Less: Amounts condoned	(2,291,738)	(36,438)
Less: Amounts recoverable (not condoned)	-	(7,878)
	<u>-</u>	<u>-</u>

Details of irregular expenditure

Advertising of tender for shorter period	2,250,000	-
Minor breaches of SCM procedures	41,738	44,316
	<u>2,291,738</u>	<u>44,316</u>

No disciplinary action or criminal proceedings were instituted against the officials concerned.

Details of irregular expenditure condoned

Tender advertised for six days as opposed to seven days	2,250,000	-
Minor breaches of SCM procedures	41,738	36,438
	<u>2,291,738</u>	<u>36,438</u>

The expenditure relating to the advertising of the tender for six days as opposed to seven days was condoned as per Council Resolution No. 545.05.13.

The minor breaches, after investigation, was condoned by Council as per Resolution No. 90.08.13 (2012: Resolution No. 332.06.12).

Details of irregular expenditure recoverable (not condoned)

Minor breaches regarding purchases without following proper SCM processes	-	7,878
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The above expenditure was not condoned by Council and was recovered from the official concerned.

47. In-kind donations and assistance

Assistance was given to the Municipality by KZN Provincial Treasury to assist the Municipality with cashflow management.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
48. Additional disclosure in terms of Municipal Finance Management Act		
Losses through criminal conduct		
Banking Fraud	188,133	-
Theft of fuel	27,043	-
	215,176	-

The above amount was lost due to banking fraud that was committed during June 2013. A request to change banking details was received coupled with bank statements verifying the new banking details. All details relating to the company were correct as per the letter received requesting the change and the letter from the bank approving the new banking details was stamped by the bank. However, this was a fraudulent act and the a case has been opened with the SAPS. The case number is CAS193/6/2013. The matter is also being investigated by the forensic division of First National Bank and ABSA. On the 27th of August 2013, an amount of R176,247.89 was refunded by ABSA as a result of this fraud.

It had been reported by the Municipal Security Company that a private vehicle had been using the municipal petrol pumps. This alleged theft had resulted in a loss of fuel and was investigated. It had been reported to Management Committee, Executive Committee and Council.

Audit fees

Amount paid - current year	949,929	979,373
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PAYE and UIF

Amount paid - current year	6,048,936	5,444,043
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There were no amounts outstanding as at 30 June 2013.

Pension and Medical Aid Deductions

Amount paid - current year	8,822,249	7,927,469
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There were no amounts outstanding as at 30 June 2013.

VAT

VAT receivable	13,290,111	11,493,139
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

A case is currently pending for a vat claim in respect of a vat audit that was done.

Council meetings

In terms of Section 52(d) of the Municipal Finance Management Act, No.56 of 2003, the mayor of a municipality must, within 30 days of the end of each quarter, submit a report to the council on the implemetation of the budget and the financial state of affairs of the municipality. During the financial year, the municipal council was unable to meet for the period 25 July 2012 to 14 November 2012. Thereafter, the council had met on a monthly basis and all budget and financial reports had been reported to council on a monthly basis.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013 R	2012 R
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49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that she records the reasons for any deviations and reports them to the next meeting of the Council and includes a note to the annual financial statements.

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager and noted by Council. All expenses incurred have been condoned.

All deviations have been approved by Council and have been reported to National Treasury, Provincial Treasury and the Auditor General in compliance with section 114 of the Municipal Finance Management Act, 56 of 2003.

Summary of deviations

Procurement of specialised electricity vehicle	-	295,757
Procurement of asset management specialists - I Chain	-	318,790
Purchase of motor vehicle	364,260	-
	364,260	614,547

50. Budget differences

Material differences between budget and actual amounts

Service Charges - There had been a discount allocated to certain class of electricity users. This reduced the electricity income. In addition to this, the consumption of electricity of all consumers had decreased.

Interest received - There was interest received on external investments from the grants received. It was planned that all the grant funds would be fully utilised, but there was approximately R18 million recorded as unspent at the end of the financial year. The interest had accrued due these funds being cash backed in investment accounts.

Property Rates - It was envisaged that a new supplementary roll, supplementary roll 7, would be issued during the financial year. This supplementary roll was only issued by the municipal valuers after the financial year.

Government Grants and Subsidies - Grants are recognised when the conditions associated with the grant have been met. As mentioned above, some grants have unspent balances due to conditions not being met. This had resulted in the large difference.

Depreciation - Some of the assets that were planned to be purchased from the capital grants had not occurred. The funds allocated were recoded as unspent and the assets not purchased. This resulted in a decrease of the depreciation allocation over the budgeted amount.

Debt Impairment - Each debtor had been analysed by a service provider in order to ascertain the provision for the debt impairment. All available databases had been scanned and debtors profiled. In terms of this analysis, the provision for the debt impairment was lower than that budgeted.

Inventories - The electricity items had now been incorporated into the municipal stores. There were also additional items that were requested to be stores item. This had resulted in the increase.

Other receivables from exchange transactions - A provision was made for an outstanding amount due to the fact that as at the 30th of June 2013, it was considered doubtful.

Vat receivable - It was planned that the outstanding vat due to the municipality would be received by the municipality. This matter is still pending.

Investments - There was a large amount of unspent conditional grants at the end of the financial year. All these funds were cash backed resulting in an increase in the investment estimate.

Umtshezi Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013 R	2012 R
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Cash and cash equivalents - Due to stringent cash flow management and the collection of arrear debt, this actual had exceeded the budgeted estimate.

Property, plant and equipment - Due to the fact that certain grants were unspent, this had resulted in a reduction of the actual figures from the budgeted estimate.

Unspent conditional grant - It was planned that there would have been no unspent conditional grants at the end of the financial year. Due to amendments to contracts that had to occur, there was a large amount unspent.

51. Councillor's arrear consumer accounts

The following Councillors had arrear accounts over 90 days during the financial year as follows:

Lite Edith	-	3,122
Magubane Siphamandla Duncan	-	3,754
Mdakane Mhlabumangele Seph	-	9,875
Ndawonde Bongumusa Howard	-	3,927
	-	20,678

52. Electricity Losses

Electricity units purchased from Eskom

Estcourt (units)	198,252,008	200,381,561
Wembezi (units)	13,376,367	12,874,763
	211,628,375	213,256,324

Electricity units sold by the Municipality

Domestic (units)	37,761,340	38,850,463
Commercial (units)	15,617,879	16,244,022
Bulk (units)	140,134,313	144,931,625
Departmental (units)	1,740,681	2,310,668
	195,254,213	202,336,778

Electricity losses for the financial year was 7.74% (2012: 5.12%). These losses are attributable to electricity losses within the electricity network infrastructure.

53. Municipal Entity - Midlands Development Agency

The municipality, in association with Umngeni Municipality and Mpofana Municipality, is forming a municipal entity called the Midlands Economic Development Agency (MEDA). The entity is still in the process of being established. The purpose of the entity is to implement development projects in the Midlands between Howick and Estcourt.

54. Events after the reporting date

There are no disclosable events that have occurred after the reporting date.

Umtshezi Municipality
Appendix A

Schedule of external loans as at 30 June 2013

Loan Number	Redeemable	Balance at 30 June 2012	Received during the period	Redeemed written off during the period	Balance at 30 June 2013	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
Development Bank of South Africa							
DBSA - MPRA Loan	2013	1,710,930	-	1,123,949	586,981	-	-
Loan 1 - Plant and Equipment	61000894 2021	6,909,999	-	577,831	6,332,168	4,356,485	-
Loan 2 - Electricity Upgrade	61000893 2031	2,909,775	-	171,185	2,738,590	3,554,613	-
		11,530,704	-	1,872,965	9,657,739	7,911,098	-
Lease liability							
Motswako, Wesbank, Fleet Africa		2,644,370	-	864,047	1,780,323	714,470	-
		2,644,370	-	864,047	1,780,323	714,470	-
Total external loans							
Development Bank of South Africa		11,530,704	-	1,872,965	9,657,739	7,911,098	-
Lease liability		2,644,370	-	864,047	1,780,323	714,470	-
		14,175,074	-	2,737,012	11,438,062	8,625,568	-

Umtshezi Municipality
Umtshezi Municipality
Appendix B

Analysis of property, plant and equipment as at 30 June 2013
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	164,178,767	-	(1,876,630)	1,228,071	-	-	163,530,208	-	-	-	-	-	-	163,530,208
Landfill Sites (Separate for AFS purposes)	2,203,351	-	-	-	-	-	2,203,351	(217,533)	-	-	(39,837)	-	(257,370)	1,945,981
Buildings (Separate for AFS purposes)	208,327,095	8,087,818	-	-	-	-	216,414,913	(61,535,030)	-	-	(12,125,005)	-	(73,660,035)	142,754,878
	374,709,213	8,087,818	(1,876,630)	1,228,071	-	-	382,148,472	(61,752,563)	-	-	(12,164,842)	-	(73,917,405)	308,231,067
Infrastructure														
Roads, Pavements & Bridges	250,765,480	18,772,565	-	-	-	-	269,538,045	(79,671,625)	-	-	(10,109,375)	-	(89,781,000)	179,757,045
Storm water	64,669,939	-	-	-	-	-	64,669,939	(11,970,757)	-	-	(2,398,083)	-	(14,368,840)	50,301,099
Transmission & Reticulation	73,264,928	128,291	-	-	-	-	73,393,219	(12,699,244)	-	-	(2,625,286)	-	(15,324,530)	58,068,689
Street lighting	-	164,986	-	-	-	-	164,986	-	-	-	-	-	-	164,986
	388,700,347	19,065,842	-	-	-	-	407,766,189	(104,341,626)	-	-	(15,132,744)	-	(119,474,370)	288,291,819
Community Assets														
Parks & gardens	1,318,606	-	-	-	-	-	1,318,606	(15,925)	-	-	(131,618)	-	(147,543)	1,171,063
Sportsfields and stadium	10,603,690	-	-	-	-	-	10,603,690	(2,612,434)	-	-	(522,250)	-	(3,134,684)	7,469,006
Swimming pools	78,990	-	-	-	-	-	78,990	(7,498)	-	-	(7,914)	-	(15,412)	63,578
Cemeteries	859,603	-	-	-	-	-	859,603	(297,354)	-	-	(61,013)	-	(358,367)	501,236
	12,860,889	-	-	-	-	-	12,860,889	(2,933,211)	-	-	(722,795)	-	(3,656,006)	9,204,883

Umtshezi Municipality
Umtshezi Municipality
Appendix B

Analysis of property, plant and equipment as at 30 June 2013
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Specialised vehicles														
Refuse	2,865,802	-	-	-	-	-	2,865,802	(195,120)	-	-	(461,425)	-	(656,545)	2,209,257
Fire	1,096,663	-	-	-	-	-	1,096,663	(448,708)	-	-	(102,402)	-	(551,110)	545,553
Fire - Leased	1,418,903	-	-	-	-	-	1,418,903	(698,388)	-	-	(142,182)	-	(840,570)	578,333
	5,381,368	-	-	-	-	-	5,381,368	(1,342,216)	-	-	(706,009)	-	(2,048,225)	3,333,143
Other assets														
General vehicles	10,528,404	649,040	(1)	-	-	-	11,177,443	(4,689,984)	-	-	(972,073)	-	(5,662,057)	5,515,386
Plant & equipment	5,237,906	84,596	(402,085)	-	-	10,787	4,931,204	(2,779,455)	280,993	-	(506,605)	-	(3,005,067)	1,926,137
Computer Equipment	5,577,492	103,381	(112,018)	-	-	122,402	5,691,257	(4,782,008)	68,829	-	(213,858)	-	(4,927,037)	764,220
Furniture & Fittings	3,482,389	42,326	(258,665)	-	-	8,659	3,274,709	(2,066,896)	158,564	-	(449,897)	-	(2,358,229)	916,480
Office Equipment	1,659,427	-	(99,728)	-	-	-	1,559,699	(814,299)	71,635	-	(166,099)	-	(908,763)	650,936
Security measures	118,867	-	-	-	-	-	118,867	(107,407)	-	-	(3,230)	-	(110,637)	8,230
Bins and Containers	750	-	-	-	-	-	750	(750)	-	-	-	-	(750)	-
Other	5,694	-	-	-	-	-	5,694	(3,982)	-	-	(573)	-	(4,555)	1,139
General vehicles - Leased	1,861,500	-	-	-	-	-	1,861,500	(1,478,702)	-	-	(252,559)	-	(1,731,261)	130,239
Office equipment - Leased	2,034,850	-	(123,543)	-	-	-	1,911,307	(1,342,348)	71,633	-	(166,098)	-	(1,436,813)	474,494
	30,507,279	879,343	(996,040)	-	-	141,848	30,532,430	(18,065,831)	651,654	-	(2,730,992)	-	(20,145,169)	10,387,261

**Umtshezi Municipality
Umtshezi Municipality
Appendix B**

Analysis of property, plant and equipment as at 30 June 2013	
Cost/Revaluation	Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment														
Land and buildings	374,709,213	8,087,818	(1,876,630)	1,228,071	-	-	382,148,472	(61,752,563)	-	-	(12,164,842)	-	(73,917,405)	308,231,067
Infrastructure	388,700,347	19,065,842	-	-	-	-	407,766,189	(104,341,626)	-	-	(15,132,744)	-	(119,474,370)	288,291,819
Community Assets	12,860,889	-	-	-	-	-	12,860,889	(2,933,211)	-	-	(722,795)	-	(3,656,006)	9,204,883
Specialised vehicles	5,381,368	-	-	-	-	-	5,381,368	(1,342,216)	-	-	(706,009)	-	(2,048,225)	3,333,143
Other assets	30,507,279	879,343	(996,040)	-	-	141,848	30,532,430	(18,065,831)	651,654	-	(2,730,992)	-	(20,145,169)	10,387,261
	812,159,096	28,033,003	(2,872,670)	1,228,071	-	141,848	838,689,348	(188,435,447)	651,654	-	(31,457,382)	-	(219,241,175)	619,448,173
Agricultural/Biological assets														
Intangible assets														
Computers - software & programming	964,834	310,280	-	-	-	-	1,275,114	(779,059)	-	-	(57,621)	-	(836,680)	438,434
	964,834	310,280	-	-	-	-	1,275,114	(779,059)	-	-	(57,621)	-	(836,680)	438,434
Investment properties														
Total														
Land and buildings	374,709,213	8,087,818	(1,876,630)	1,228,071	-	-	382,148,472	(61,752,563)	-	-	(12,164,842)	-	(73,917,405)	308,231,067
Infrastructure	388,700,347	19,065,842	-	-	-	-	407,766,189	(104,341,626)	-	-	(15,132,744)	-	(119,474,370)	288,291,819
Community Assets	12,860,889	-	-	-	-	-	12,860,889	(2,933,211)	-	-	(722,795)	-	(3,656,006)	9,204,883
Specialised vehicles	5,381,368	-	-	-	-	-	5,381,368	(1,342,216)	-	-	(706,009)	-	(2,048,225)	3,333,143
Other assets	30,507,279	879,343	(996,040)	-	-	141,848	30,532,430	(18,065,831)	651,654	-	(2,730,992)	-	(20,145,169)	10,387,261
Intangible assets	964,834	310,280	-	-	-	-	1,275,114	(779,059)	-	-	(57,621)	-	(836,680)	438,434
	813,123,930	28,343,283	(2,872,670)	1,228,071	-	141,848	839,964,462	(189,214,506)	651,654	-	(31,515,003)	-	(220,077,855)	619,886,607

Umtshezi Municipality
Umtshezi Municipality
Appendix B

Analysis of property, plant and equipment as at 30 June 2012
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	164,801,037	-	-	-	-	(622,270)	164,178,767	-	-	-	-	-	-	164,178,767
Landfill Sites (Separate for AFS purposes)	378,032	1,825,319	-	-	-	-	2,203,351	(177,696)	-	-	(39,837)	-	(217,533)	1,985,818
Buildings (Separate for AFS purposes)	207,153,762	1,173,333	-	-	-	-	208,327,095	(49,334,689)	-	-	(12,200,341)	-	(61,535,030)	146,792,065
	372,332,831	2,998,652	-	-	-	(622,270)	374,709,213	(49,512,385)	-	-	(12,240,178)	-	(61,752,563)	312,956,650
Infrastructure														
Roads, Pavements & Bridges	240,498,412	10,267,068	-	-	-	-	250,765,480	(69,044,423)	-	-	(10,627,202)	-	(79,671,625)	171,093,855
Storm water	64,669,939	-	-	-	-	-	64,669,939	(9,572,674)	-	-	(2,398,083)	-	(11,970,757)	52,699,182
Transmission & Reticulation	68,353,303	4,911,625	-	-	-	-	73,264,928	(10,329,560)	-	-	(2,369,684)	-	(12,699,244)	60,565,684
	373,521,654	15,178,693	-	-	-	-	388,700,347	(88,946,657)	-	-	(15,394,969)	-	(104,341,626)	284,358,721
Community Assets														
Parks & gardens	117,882	1,200,724	-	-	-	-	1,318,606	(4,000)	-	-	(11,925)	-	(15,925)	1,302,681
Sportsfields and stadium	10,603,690	-	-	-	-	-	10,603,690	(2,090,184)	-	-	(522,250)	-	(2,612,434)	7,991,256
Swimming pools	71,910	7,080	-	-	-	-	78,990	-	-	-	(7,498)	-	(7,498)	71,492
Cemeteries	859,603	-	-	-	-	-	859,603	(236,317)	-	-	(61,037)	-	(297,354)	562,249
	11,653,085	1,207,804	-	-	-	-	12,860,889	(2,330,501)	-	-	(602,710)	-	(2,933,211)	9,927,678

**Umtshezi Municipality
Umtshezi Municipality
Appendix B**

Analysis of property, plant and equipment as at 30 June 2012	
Cost/Revaluation	Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Specialised vehicles														
Refuse	1,048,084	1,817,718	-	-	-	-	2,865,802	(89,958)	-	-	(105,162)	-	(195,120)	2,670,682
Fire	1,096,663	-	-	-	-	-	1,096,663	(325,624)	-	-	(123,084)	-	(448,708)	647,955
Fire - Leased	1,418,903	-	-	-	-	-	1,418,903	(556,723)	-	-	(141,665)	-	(698,388)	720,515
	3,563,650	1,817,718	-	-	-	-	5,381,368	(972,305)	-	-	(369,911)	-	(1,342,216)	4,039,152
Other assets														
General vehicles	8,731,548	1,943,054	-	-	-	(146,198)	10,528,404	(3,771,986)	316,825	-	(1,234,823)	-	(4,689,984)	5,838,420
Plant & equipment	4,263,961	987,641	(13,696)	-	-	-	5,237,906	(2,304,382)	3,982	-	(479,055)	-	(2,779,455)	2,458,451
Computer Equipment	5,324,285	255,968	(2,761)	-	-	-	5,577,492	(4,574,456)	1,740	-	(209,292)	-	(4,782,008)	795,484
Furniture & Fittings	3,251,788	241,286	(10,685)	-	-	-	3,482,389	(1,614,624)	6,228	-	(459,157)	657	(2,066,896)	1,415,493
Office Equipment	1,526,596	148,587	(15,756)	-	-	-	1,659,427	(652,346)	7,173	-	(175,021)	5,895	(814,299)	845,128
Security measures	118,867	-	-	-	-	-	118,867	(89,834)	-	-	(17,573)	-	(107,407)	11,460
Bins and Containers	750	-	-	-	-	-	750	(750)	-	-	-	-	(750)	-
Other	5,694	-	-	-	-	-	5,694	(3,408)	-	-	(574)	-	(3,982)	1,712
General Vehicles - Leased	3,024,433	-	(1,162,933)	-	-	-	1,861,500	(1,699,237)	618,049	-	(474,702)	77,188	(1,478,702)	382,798
Office Equipment - Leased	1,989,761	45,089	-	-	-	-	2,034,850	(971,933)	-	-	(370,415)	-	(1,342,348)	692,502
	28,237,683	3,621,625	(1,205,831)	-	-	(146,198)	30,507,279	(15,682,956)	953,997	-	(3,420,612)	83,740	(18,065,831)	12,441,448

**Umtshezi Municipality
Umtshezi Municipality
Appendix B**

Analysis of property, plant and equipment as at 30 June 2012	
Cost/Revaluation	Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment														
Land and buildings	372,332,831	2,998,652	-	-	-	(622,270)	374,709,213	(49,512,385)	-	-	(12,240,178)	-	(61,752,563)	312,956,650
Infrastructure	373,521,654	15,178,693	-	-	-	-	388,700,347	(88,946,657)	-	-	(15,394,969)	-	(104,341,626)	284,358,721
Community Assets	11,653,085	1,207,804	-	-	-	-	12,860,889	(2,330,501)	-	-	(602,710)	-	(2,933,211)	9,927,678
Specialised vehicles	3,563,650	1,817,718	-	-	-	-	5,381,368	(972,305)	-	-	(369,911)	-	(1,342,216)	4,039,152
Other assets	28,237,683	3,621,625	(1,205,831)	-	-	(146,198)	30,507,279	(15,682,956)	953,997	-	(3,420,612)	83,740	(18,065,831)	12,441,448
	789,308,903	24,824,492	(1,205,831)	-	-	(768,468)	812,159,096	(157,444,804)	953,997	-	(32,028,380)	83,740	(188,435,447)	623,723,649
IT equipment														
Intangible assets														
Networking	100,000	-	-	-	-	-	100,000	(100,000)	-	-	-	-	(100,000)	-
Software	786,694	78,140	-	-	-	-	864,834	(599,643)	-	-	(79,416)	-	(679,059)	185,775
	886,694	78,140	-	-	-	-	964,834	(699,643)	-	-	(79,416)	-	(779,059)	185,775
Investment properties														
Total														
Land and buildings	372,332,831	2,998,652	-	-	-	(622,270)	374,709,213	(49,512,385)	-	-	(12,240,178)	-	(61,752,563)	312,956,650
Infrastructure	373,521,654	15,178,693	-	-	-	-	388,700,347	(88,946,657)	-	-	(15,394,969)	-	(104,341,626)	284,358,721
Community Assets	11,653,085	1,207,804	-	-	-	-	12,860,889	(2,330,501)	-	-	(602,710)	-	(2,933,211)	9,927,678
Specialised vehicles	3,563,650	1,817,718	-	-	-	-	5,381,368	(972,305)	-	-	(369,911)	-	(1,342,216)	4,039,152
Other assets	28,237,683	3,621,625	(1,205,831)	-	-	(146,198)	30,507,279	(15,682,956)	953,997	-	(3,420,612)	83,740	(18,065,831)	12,441,448
Intangible assets	886,694	78,140	-	-	-	-	964,834	(699,643)	-	-	(79,416)	-	(779,059)	185,775
	790,195,597	24,902,632	(1,205,831)	-	-	(768,468)	813,123,930	(158,144,447)	953,997	-	(32,107,796)	83,740	(189,214,506)	623,909,424

Umtshezi Municipality

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun		
Municipal Infrastructure Grant	National Treasury	-	30,000	74,000	45,000	-	-	48,787	02,150	19,796	-	-	-	-	-	-	Yes	
Finance Management Grant	National Treasury	-	00,000	-	-	-	-	08,747	88,759	07,563	94,931	-	-	-	-	-	Yes	
Neighbourhood Development Grant	National Treasury	-	-	-	13,000	-	-	01,093	70,851	21,027	79,967	00,000	-	-	-	-	Roll over not approved	Yes
Sport Infrastructure	KZN Dept of Sports and Recreation	-	-	-	25,000	-	-	-	-	-	-	-	-	-	-	-	Yes	
Intergrated National Electrification	National Department of Ebergry	-	-	-	-	-	-	-	46,826	03,378	44,371	-	-	-	-	-	Yes	
Small Town Rehabilitation Grant	KZN Cogta	-	00,000	-	-	-	-	03,294	04,828	99,169	30,478	-	-	-	-	-	Yes	
Health	Dept of Health	-	-	-	13,000	-	-	-	-	13,000	-	-	-	-	-	-	Yes	
Equitable Share	National Treasury	-	52,000	05,000	90,000	-	-	52,000	05,000	90,000	-	-	-	-	-	-	Yes	
Provincialisation of Libraries	Dep of Arts and Culture	-	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	Yes	
Museum Grant	Provincial Treasury	-	68,000	-	-	-	-	68,000	-	-	-	-	-	-	-	-	Yes	
National Youth Development Agency Grant		-	-	-	80,000	-	-	-	-	-	92,000	-	-	-	-	-	Yes	
Municipal Systems Infrastructure Grant	National Treasury	-	00,000	-	-	-	-	00,000	-	-	-	-	-	-	-	-	Yes	
		-	44,000	79,000	66,000	-	-	81,921	118,414	53,933	41,747	00,000	-	-	-	-		

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.